



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Del D. Borgsdorf

SUBJECT: EMERGENCY RESPONSE FEE

DATE: May 17, 2004

RECOMMENDATION

Direct the City Attorney to prepare and present an Emergency Response Fee ordinance and a resolution establishing an initial monthly fee of \$1.75 per access line and \$13.13 per trunk line.

BACKGROUND

The proposed Emergency Response fee would be a fee charged on every telephone line (landline or cellular line) with a billing address located within the City of San José. The proposed fee would be charged at two different rates – one for direct access line connections (which can be either landlines or cell lines); and one for trunkline connections that consist of a bundled bank of lines from a switch to the central office of the provider. Trunklines generally carry 7-8 access lines, or phones, “behind” the switch.

The proposed fee is a flat monthly fee to cover part of the cost of maintaining the accessibility of the City's emergency communications system to telephone subscribers; the fee does not depend on how many times per month or per year an individual phone subscriber calls the dispatch center. Other jurisdictions that have this type fee have set their trunkline charges at 7.5 times the single access line fee.

The proposed fee would not be charged for users of the type of hardware and software that enables people to use the Internet as the transmission medium for telephone calls known as Voice over Internet Protocol (VOIP), as this technology currently does not currently have the ability to initiate 9-1-1 calls. As more information regarding this technology becomes available, the issue of charging the fee to its users may need to be readdressed.

The costs that are proposed to be recovered through this fee are the salaries of the employees that work in the dispatch center, as well as an annualized cost of the equipment and facilities used to support the emergency response function. In addition, the costs of City and Departmental support services (fiscal, and administrative), retirement and benefits costs, and other items of overhead and supervision of the unit are allocated according to procedures approved under appropriate Federal guidelines.

BACKGROUND (CONT'D.)

The fee would appear on the phone bill and be paid to the user's telephone service provider. The service provider will then remit the payment to the City. Processing costs are well under 1%, making this a highly efficient revenue collection mechanism.

The City/County of San Francisco was the first agency in the State to implement a fee to recover operating costs associated with its emergency call taking and dispatch function. Last year, the cities, districts, and County agencies served by the joint powers dispatch center in Santa Cruz County adopted a similar fee. Many other jurisdictions have recently adopted, or are considering adoption of, this type of fee. . As with any cost recovery fee, the revenue generated by the fee should not exceed the costs of the program for which the fee is collected. Also, similar to other fees, if the City elects to exempt any specific group(s) from payment of the fee, the program costs associated with making service available to the exempt group(s) may not be recovered from other fee payers.

An Emergency Response fee is currently being considered by local agencies, in part, due to the State's decision to transfer the responsibility for handling cell phone calls from the California Highway Patrol to local call taking centers. This transfer will increase the number of calls that local agencies must handle, and thus will increase costs at a time when local agencies are already having a hard time supporting existing service levels. Call volume will increase in part because, in the past, CHP screened out invalid calls and duplicate calls before forwarding them to city dispatch centers, and in part because under the new system, agencies will receive some cell phone calls that need to be routed to a neighboring agency for service.

Although many jurisdictions within Santa Clara County that have dispatch operations have begun considering this fee, only one city that we know of (Cupertino) has held Council hearings regarding the fee. The Santa Clara County Board of Supervisors recently voted not to impose such a fee this year. Many cities and towns in the region are participating, through the Assistant City Managers Association, in a collaborative, coordinated endeavor that will enable them to minimize redundant efforts and adopt consistent codes, in order to facilitate a smooth implementation for those cities, which decide to adopt this fee. Mark Linder, Assistant City Manager, has been San José's representative to this committee.

ANALYSIS

In general, we are recommending that the San Francisco ordinance be used as a model for San José. This model essentially calls for the inclusion of costs for staff, equipment, and facilities associated with the call handling center only. Theoretically, however, we could create variations to San Francisco's approach by adding specific elements of costs (such as radio towers used to transmit calls to cars, car radio costs, etc.) or deleting similar elements of cost (such as dispatcher break time, etc.) within the overall definition of costs associated with taking a call and getting the information to the field officer or fire unit. However, we are generally recommending use of the San Francisco ordinance definition of cost, with one modifications, the comparatively small deletion of the costs associated with dispatcher time spent talking with field units about issues

ANALYSIS (CONT'D)

not associated with any call. This has the impact of reducing the fee by about 10%. Supervisory, facility, and overhead costs are not changed.

EXEMPTIONS, "CAPS", AND "EXCLUDED" LINES

Various ordinances and proposed ordinances from other jurisdictions include exemptions and fee caps that have been adopted based on the implementing jurisdiction's perception of the most appropriate policy. It is important to understand, however, that if an exemption is granted for public policy reasons, the City must absorb that portion of the cost of providing the service associated with the exempted group. Non-exempted users cannot be required to pay the costs of exempted groups through higher fees to the general public.

Exemptions

The exemptions we are recommending be included in the fee design, along with their impact on revenue, are:

a. Lifeline Customers

The California Public Utilities Commission (CPUC) has established lower rates for certain disadvantaged and limited income users of phone services. Those that qualify can receive "lifeline" service rates. All jurisdictions that have adopted this type fee to date have exempted lifeline customers from the fee. Based on Statewide per-capita lifeline numbers, we estimate that there are approximately 87,344 such lines in San José. Exempting this group from this fee would reduce revenue by an estimated \$1.9 million. Given that the CPUC definition is the only definition available for disadvantaged or low-income users that the phone companies can utilize, the City is essentially limited to using this definition for billing purposes. Any alternative definitions would need to be handled directly by the City, perhaps in the form of a rebate.

b. Governmental Agencies

We have used local economic estimates about the number of employees in all industry sectors versus the number in the government sector to determine how the business phone data available from the State should be split. According to the latest employment data, the employment split is 5.71% government. According to State data, the calls being received by the San José emergency response center are 26.1% "business" (includes businesses, governmental, educational and other non-residential) calls. Thus, we have estimated that 1.49% of all calls we handle are potentially from governmental phones. If this group is exempted, revenue from this fee would be reduced by about \$350,000. Some of this revenue would have been related the City of San José itself (the City has about 14% of all government jobs within the County, or about 25% of those estimated to be within its boundaries), so the net impact of this exemption would actually be slightly less than \$350,000. Both this estimate, and the educational exemption proposed next, assume that government agency employment is distributed evenly throughout the county.

ANALYSIS (CONT'D.)

c. Educational Exemption

Schools and universities comprise a larger percentage of total countywide employment than government. They constitute about 8.74% of countywide employment. Using the same methodology used for estimating governmental agency impact, we estimated their likely impact on the costs of San José's emergency response at 2.28% of the total calls. Exempting this group would reduce revenue by about \$550,000. (See the note below regarding San Jose State and why the lines it has are generally not subject to this fee, regardless of whether the City exempts the educational agencies as a group.)

d. Coin and Pay Phones

Coin and pay phones are exempt for the State 9-1-1 surcharge and all other jurisdictions with a local fee have exemptions for these phones. Clearly any fee assessed on a pay phone is going to be divided by a very large number of customers each month. This line of business is being impacted by the emergence of cell phones as a widely used commodity, so the City could determine that it should be exempted for economic reasons. On the other hand, call center staff report that an unusually high proportion of "prank" and "unsubstantiated incident" calls originate at pay phones. It apparently provides the most anonymous remaining source for such calls since fire call boxes were phased out. Using Statewide per capita coin/pay phone data, there are comparatively few remaining pay phones – only an estimated 6,750 in San José. Exempting these lines, it would only reduce the cost recovery by an estimated \$150,000.

We have estimated the revenue from the proposed fee assuming only the four above exemptions. If the City Council were to direct additional exemptions, the rate per line per month would not change, however, the total revenue collected would decline.

Exclusions

In addition to exemptions, it needs to be pointed out that there is one other public safety answering point (PSAP) within the City's boundaries – San Jose State University. 9-1-1 calls placed on Phones at the university are not answered by the City's dispatch center, but by the University's own dispatch center. Therefore, these phone lines are not subject to San José's fee. These lines, therefore, are considered an automatically excluded group.

Fee Caps

In addition to exemptions and exclusions, it is appropriate to consider whether there should be a limitation or cap on the total amount to be paid in fees by any one subscriber. Other ordinances for similar fees have a cap on the maximum amount any one location can be charged. Such a cap is properly based on the ability to determine that no single location uses the call-taking and dispatching system more than "x%" based on counting calls from the locations that make the most calls to the emergency response center. The cap amount formula is:

ANALYSIS (CONT'D.)

$$\text{Total cost of service} \times \frac{\text{\# of calls per year from the most frequent location}}{\text{The total calls received per year from all sources}}$$

Although we do not have the ability to actually calculate the number of calls per year from the most frequent location with our current dispatch system, we expect to be able to do so with the new system that will be installed by the end of June.

Phone companies may be unable to administer a cap if their billing system is not based on location for very large users. Thus, if a cap is imposed, the City may need to administer the cap and require users with large numbers of phone lines or trunk lines to allocate the lines to their various locations after which the City would need to rebate fees in excess of the cap at the end of the year.

Unlike exemptions, caps should not impact the amount of revenue to be generated by the fee. This is because they are appropriate structural decisions based on costs of service. The impact of a cap is to potentially increase the rate of the fee per line for all users and to avoid charging users an amount that is clearly out of line with the City's cost to serve that entity or citizen.

Based on San Francisco's use of this limit, we suggest that the City initially place a cap of \$35,000 per location, with the understanding that this cap will be adjusted to the amount resulting from the above formula when the City has the data available from its new dispatch system.

EFFECTIVE DATE AND REVENUE ESTIMATE

The proposed effective date of this fee would be based on the ordinance's effective date, but for purposes of balancing the City's General Fund, the 2004-2005 Proposed Operating Budget has assumed that we would receive only 6 month's worth of revenue from this source in 2004-2005. There are over 150 telephone companies serving the City. Each company has to implement this fee, and they will not all do so at exactly the same time. SBC, the largest provider, for example, has stated that it believes that it will take their company four months from the time the City approves the ordinance adopting the fee before the fee will appear on their phone bills. The City would then have to wait another approximately 60 days before it would have a full revenue stream, while customers pay the phone companies, the phone companies accounting is completed, and the various phone companies pay the City. The phone companies will charge a small fee to administer the billing/payment arrangement, and this has been factored into the costs to be recovered (see attachment).

Most of our estimates rely on Statewide information adjusted to San José by population. The CPUC regulates telephone companies in California. We have used its estimates of the number of phone lines in the State (currently 41.8 million) and its forecasted numbers for next year in our calculations. To determine how many lines are located within the City, we used the California Department of Finance population forecasts to determine the overall ratio of total State population to City population.

ANALYSIS (CONT'D.)

Ultimately, if this fee is adopted, each of the companies providing phone service within City boundaries will need to provide the statistics on the number of lines each provides within the City, and that will become the basis for future fee estimates.

The City is limited to collecting no more than the actual costs of this service from the collective group of fee payers. It is the City's practice to review all fees annually and adjust them to appropriately recover the underlying costs. Normally small fluctuations in costs versus revenue for fees are not reconciled during the year and fees rates are left unchanged until the annual adjustments.

CONCLUSION

The Proposed Budget contains a recommendation that the City Council adopt the Emergency Response Fee. The 2004-2005 General Fund budget has been balanced presuming the receipt of \$10 million from this fee next year. The City Attorney's Office and the Office of the City Manager are working on an Ordinance modeled after the San Francisco Ordinance for submission to you as part of the budget approval process. The City Manager's Office is also working with the Fire and Police Departments to prepare for the upcoming shift in cell phone calls to our emergency response center and with the Finance Department on the revenue collection process and possible fee cap rebate processes that this new fee would require.

COORDINATION

This MBA has been coordinated with the City Attorney's Office, and the Police, Fire, and Finance Departments.

/s/

Del D. Borgsdorf
City Manager

Estimate of Emergency Response Fee Rates W/Various Exemptions

I Assumed costs from cost sheet		Full Collection Yr. \$22,657,324
a	Lines State-wide per CPUC	41,800,000
b	CA Population on 1/1/03 per CA Dept of Finance	35,591,000
c	Lines/capita (a/b)	1.174
d	04-05 Population estimate per CA Dept of Finance (latest)	926,241
e	Lines w/no exemptions (c*d less n)	1,079,843
f	Lines-Annualized (e*12)	12,958,115
g	Statewide lifeline lines per CPUC	3,300,000
h	Lifeline exemption percentage (g/a)	0.0789
k	Statewide pay phones per CPUC	255,001
m	Pay phones percentage (k/a)	0.0061
n	Lines served by another PSAP	7,564
Proposed Fee		\$1.75 /mo.
Proposed Trunk Lines at 7.5 Average Lines per Trunk:		\$13.13 /mo.

1) Impact of Lifeline exemption (assume 7.89% based on CPUC numbers statewide):

Reduction in costs (I*h)	\$1,787,663	
Reduction in Lines (e*h)	85,200	
Reduced lines-Annualized	1,022,395	
Costs to be recovered		\$20,869,661

2) Impact of Governmental exemption (other than educational):

Estimated percent of phones = govt.	1.49%	
Reduction in costs (I*0.0149)	\$337,594	
Reduction in Lines (e*0.0149)	16,090	
Reduced lines-Annualized	193,076	
Costs to be recovered		\$22,319,730

3) Impact of Educational exemption:

Estimated percent of phones = Educ.	2.28%	
Reduction in costs (I*0.0228)	\$516,587	
Reduction in Lines (e*0.0228)	24,620	

2004-2005 Emergency Response Fee Cost Calculation

Fire

<u>Department</u>	<u>Jobcode</u>	<u>Description</u>	<u>FTE</u>	<u>Salary</u>	<u>Benefit</u>	<u>Total</u>
5400	1156	Secretary	1.00	54,784	19,290	74,074
5400	2314	Battalion Chief	1.00	141,239	39,829	181,068
5400	8512	Supervg Pub Safety Disp *	3.00	265,673	72,773	338,446
5400	8513	Senr Pub Safe Dispatch *	9.00	686,476	174,242	860,718
5400	8514	Public Safety Disp II *	29.00	1,863,056	560,782	2,423,838
Overtime		last year's estimate				150,000
Night Shift diff.		estimate				70,000
			<u>43.00</u>	<u>3,011,228</u>	<u>866,916</u>	<u>4,098,144</u>

Police

<u>Department</u>	<u>Jobcode</u>	<u>Description</u>	<u>FTE</u>	<u>Salary</u>	<u>Benefit</u>	<u>Total</u>
5000	1135	Senr Office Specialist	1.00	50,731	19,303	70,034
5000	8510	Division Mgr, Public Safety	1.00	100,106	28,603	128,709
5000	8512	Supervg Pub Safety Disp *	8.00	715,638	194,611	910,250
5000	8513	Senr Pub Safe Dispatch *	14.00	1,103,636	294,416	1,398,052
5000	8514	Public Safety Disp II *	78.00	5,093,677	1,470,279	6,563,956
5000	8515	Public Safety Disp I *	54.00	3,030,412	929,939	3,960,351
5000	8516	Assist Police Commun Mgr	1.00	101,273	24,118	125,391
5000	8534	Public Safety Disp II PT *	4.00	257,901	23,796	281,697
5000	8535	Public Safety Disp I PT *	1.00	57,116	4,083	61,199
Overtime		last year's estimate				525,000
Night Shift Diff.		last year's estimate				188,867
			<u>162.00</u>	<u>10,510,490</u>	<u>2,989,148</u>	<u>14,213,506</u>

Total, both Departments

<u>205.00</u>	<u>13,521,719</u>	<u>3,856,064</u>	<u>18,311,650</u>
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Overhead Calculations

	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Salary + Benefits (see above)	14,213,506	4,098,144	18,311,650
Salary (w/o Benefits) (see above)	10,510,490	3,011,228	
Grant (A-87) Overhead rate (last year's rate)	0.3278	0.2525	
Overhead amount	3,445,339	760,335	4,205,674
Total cost	<u>17,658,845</u>	<u>4,858,479</u>	<u>22,517,324</u>

Dispatch software cost (\$1million amortized over 10 yrs)	100,000
Dispatch center facility costs (Based on Sq. Footage times Eligible Costs)	125,000
Estimated phone company collection fees	75,000
City costs to administer "cap" and other exclusions & audit cost	100,000

Current Total **22,917,324**

Additional cost of added call takers to handle cell phones not included

Less: dispatch portion of Central Fire property taxes for 04-05 (260,000)

Total, After Adjustments **22,657,324**

* These positions have been reduced 10% to account for non-emergency response dispatch work that could be conducted after the emergency response.